C3950-1
7/27/87

AUGUST 10, 1987

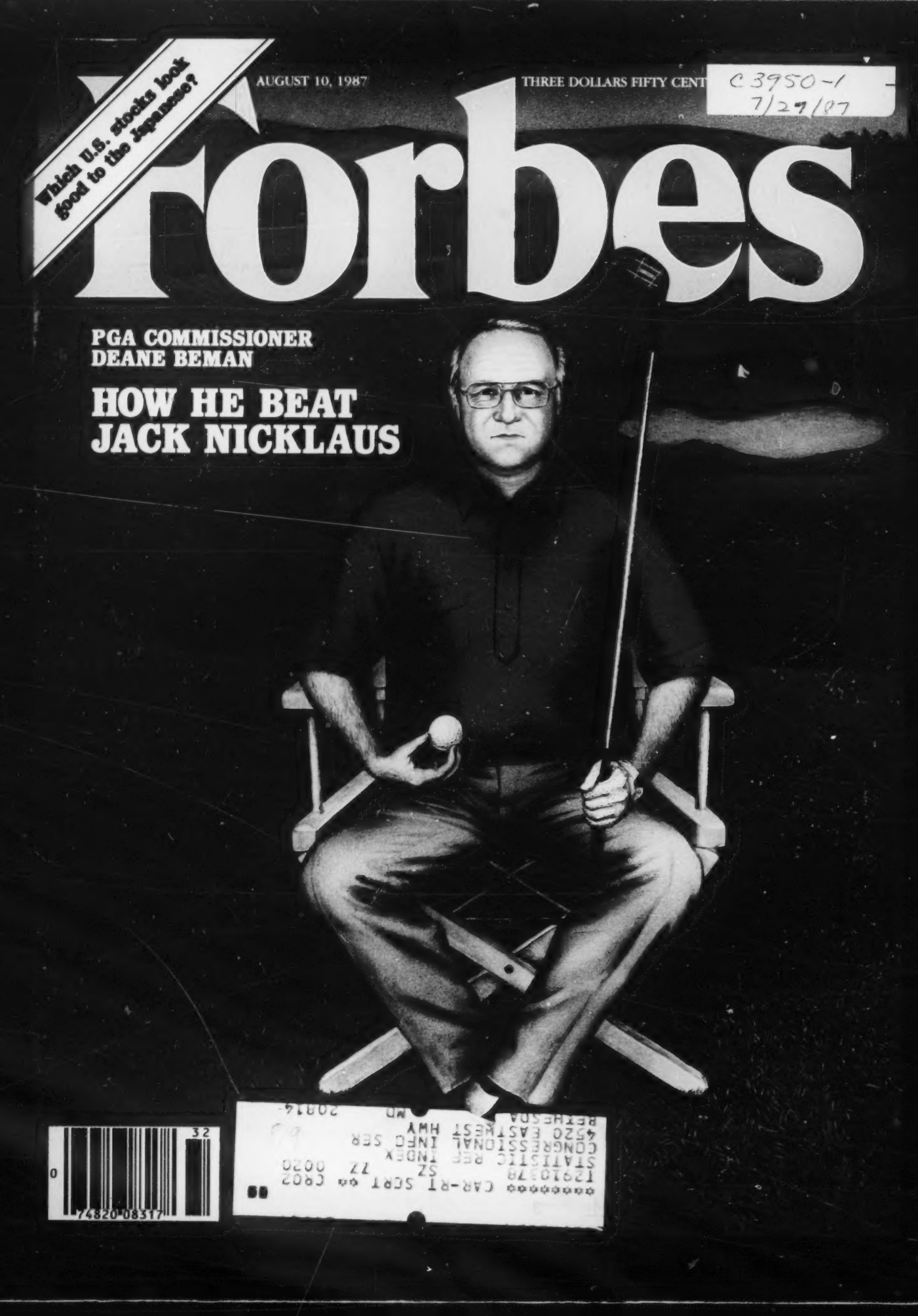
THREE DOLLARS FIFTY CENT

Which U.S. stocks look good to the Japanese?

Forbes

PGA COMMISSIONER DEANE BEMAN

HOW HE BEAT JACK NICKLAUS



0 74820 08317 32

CAR-RT SCRT ** C902
1291078 SZ 77 0020
STATISTIC REF INDEX
CONGRESSIONAL INFO SER
4520 EAST WEST HWY
BETHESDA MD 20814-

Forbes

AUGUST 10, 1987
VOLUME 140
NUMBER 3

38 *Fisherman's friend*

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 136 AND 137.

COVER STORY

74 Spreading The Wealth
By Richard Behar
Deane Beman has created a powerful trade union for professional golfers. Good for the rank and file, no doubt, but what about the sport?

COMPANIES

33 Lights, Camera, Lawyers!
By William Harris
With *Platoon*, Vestron Inc.'s Austin Furst thought he had his winner. Then he reread the contract.

34 You Don't Lose 'Em All
By Charles Siler
Why General Motors' Roger Smith wasn't nuts for buying out Ross Perot last December.

36 An Exception To Murphy's Law?
By Subrata N. Chakravarty
Progress to date at turning ABC around is distinctly disappointing.

48 Play It Again, Sam
By Howard Rudnitsky
Wal-Mart Stores' Sam Walton keeps trying to drive his competitors into the sea. It's no wonder that he's a multibillionaire.

52 The Up & Comers: A Cautionary Tale
By Kathleen K. Wiegner
LaPine Technology's unpleasant surprise from a strategic alliance.

53 The Up & Comers: Thanks, Dad
By Burr Leonard
Petroleum Equipment Tools' David Johnson had something his competitors lacked: good fatherly advice.

73 Happy Ending
By Steve Weiner
After 25 years, Household International finally found out that its original business was still best.

INVESTING

60 We'll Send You VCRs—You Send Us Stocks
By Marc Beauchamp and John Heins
To the Japanese, the U.S. stock market still looks incredibly cheap. Which stocks do they like?

122 Statistical Spotlight: Fire That Computer
By Peter Newcomb and Michael Ozanian
Simple formulas don't work.

124 The Funds: Paying The Piper
By William P. Barrett
The arithmetic of enhanced yield had to catch up with Criterion.

134 Streetwalker
Mexican stocks; real estate partnership rollups; B.F. Goodrich; Zenith Electronics.

INTERNATIONAL

64 The Big Money In Cheap Rock
By Pranay Gupte
How India's Jains spotted a market niche the competition had ignored and came to dominate the U.S. market for low-priced diamonds.

DEPARTMENTS

6 Side Lines
8 Follow-Through
12 Trends
14 Readers Say
17 Fact and Comment
22 Other Comments
25 Fact and Comment II
139 Flashbacks
140 Thoughts

COLUMNISTS

127 Ben Weberman
128 Susan Lee
129 Kenneth L. Fisher
130 Stanley W. Angrist
132 Mark Hulbert

MONEY & INVESTMENTS

27 What's Ahead For Business
28 The Forbes Index
119 The Forbes/Wilshire 5000 Review

Cover illustration by Kinuko Y. Craft

40 *Nasty fight*

64 *On to 47th Street*

110 *Moving up*

INDUSTRIES

35 Utilities—Freewheeling
By Ben Weberman and Adam Snitzer
Fair or not, making electric companies carry power sold by price-cutters is in the cards.

38 Fishing—Fish Story
By Peter Fuhrman
East Coast tuna fishermen have new friends in Tokyo.

40 Energy—How To Make Everyone Unhappy
By Lisa M. Keefe
The natural gas pipeline companies' fight to pass on the ruinous costs of their old, overpriced contracts.

REGIONS

42 The Desert—Drink And Be Merry
By Ellen Paris
While they worry about water shortages, folks in the West and Southwest luxuriate in the stuff as if there were no tomorrow.

NUMBERS GAME

89 Soft Numbers
By Laura Jereski
The lack of uniformity in software industry accounting.

MARKETING

92 The Sweet Smell Of Success
By Jeffrey A. Trachtenberg
In men's perfumes, famous designers grab the headlines, but Old Spice grabs the sales.

94 Let The Computer Do It
By Toni Mack
With more than $1 billion yearly riding on new products, manufacturers try to whittle their risks.

SCIENCE & TECHNOLOGY

96 All Aboard!
By Kerry Hannon
High tech—and high thrills—come to the amusement park. So do high prices.

102 Should We Move To Milpitas?
By Esther Dyson
Can a computer help people work together?

PERSONAL AFFAIRS

104 Portugal, If You Can
By Dyan Machan
Prices are poised to rise, but there's still time to get in on the bargains.

105 Day Surgery
By Francesca Lunzer
For minor surgery, chances are you'll be in and out in a few hours.

108 Insurance On Simpler Terms
By Barbara Kallen
Computerized shopping services for term insurance aren't perfect, but they can help.

CAREERS

110 Waiting For The Right Phone Call
By Dyan Machan
William Norman has nearly made it to the top. Now for one more mighty effort.

FACES BEHIND THE FIGURES

112 James Lopp, *Financial Security Assurance*
113 W. Paul Thayer, *Former Pentagon official*
113 Herbert Lapidus, *Combe Inc.*
116 Yoshio Maruta, *Kao Corp.*
116 D. Dale Browning, *Colorado National Bank*

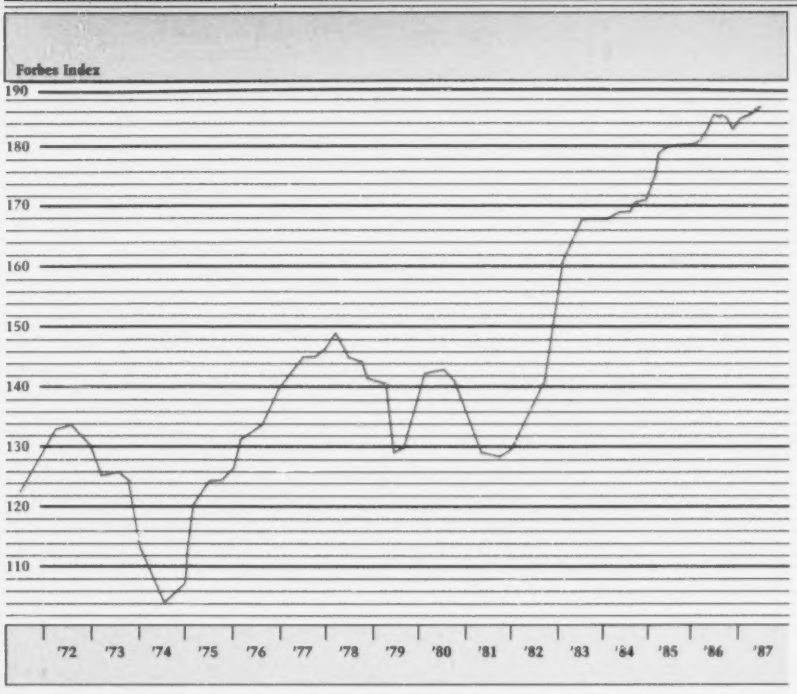
August 10, 1987 Volume 140 Number 3 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in April and two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription $45 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

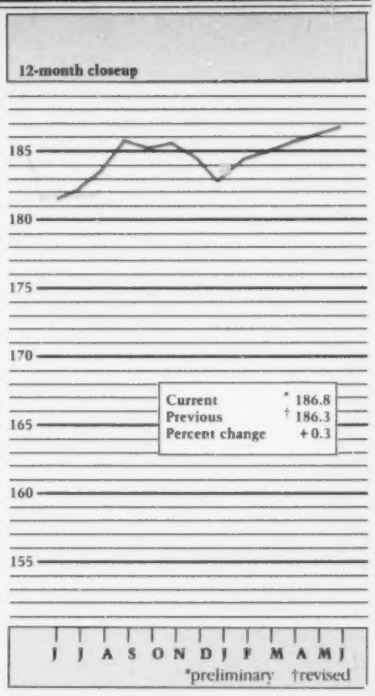
Copyright © 1987 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

Forbes does not supply back issues or copies of individual articles. Requests for permission to reprint should be sent to the Permissions and Reprints Department at Forbes. Forbes is indexed in major periodicals indexes and can be located in bound copy or microform in major libraries. The full text is available electronically on major database systems.

Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 27 Congress Street, Salem, MA, 01970 to photocopy articles owned by Forbes for a flat fee of $1.50 per copy per article. Send payment to the CCC stating the ISSN (0015 6914), volume and first and last page number of each article copied. Copying for other than personal use or internal reference, or of articles or columns not owned by Forbes without express permission of Forbes or the copyright owner is expressly prohibited.

The Forbes Index





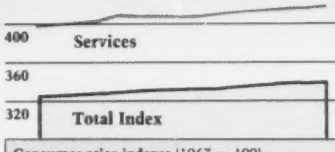
Slow but steady. The Forbes Index went up 0.3% in June—the fifth consecutive monthly increase—with several Index components chipping in. Retail sales showed the sharpest gain, increasing 0.4% from May to June. Also boosting the Index was industrial production, which inched up 0.2%, while the three-month total of consumer installment credit rose 0.2%. There was good news on the jobs front as well. The six-month total of initial unemployment claims dropped 1.4% in June.

Through the first six months of 1987, the Forbes Index grew at an annual rate of only 2.4%, vs. 3.6% through June of 1986. The economy may be slowing down, but it is not stopping. With such moderately paced growth, the U.S. has avoided a recession for the past five years.

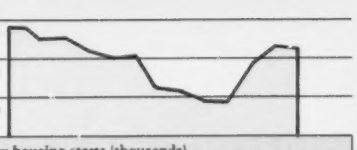
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

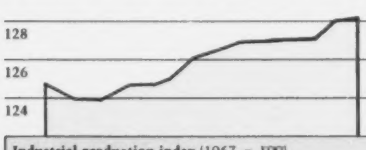
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



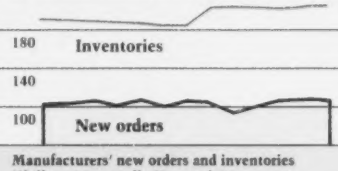
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)



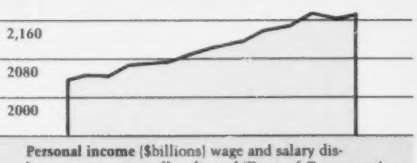
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



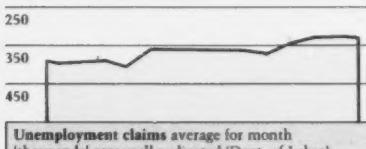
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)



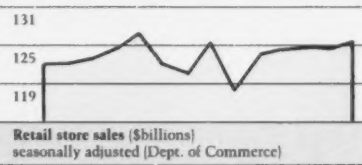
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)



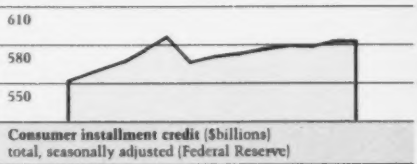
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



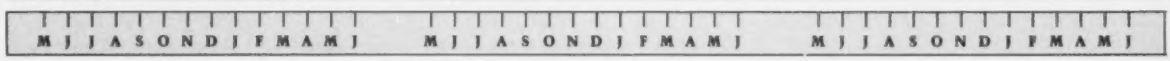
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)



For two years the natural gas pipelines have been fighting with federal regulators over how to pass on the ruinous costs of their old, overpriced contracts.

How to make everyone unhappy

By Lisa M. Keefe

A NASTY TWO-YEAR-OLD battle between federal regulators and the natural gas pipeline industry seems to be ending. The solution may swallow a big chunk of pipeline and gas utility earnings, but at least it ends uncertainty for the battered industry.

There are now two ways a pipeline transports gas around this country. The first is the old way. A pipeline buys the gas from a producer, the guy who owns the well, then resells it to a user—usually a local gas utility or a high-volume business client—and makes money on the spread. That has been the prevailing system for decades.

The second is the new way, created two years ago by the Federal Energy Regulatory Commission, which regulates the industry. In its Order 436, the federal agency allows a pipeline to become much like any other common carrier, such as a railroad or a truck line; it ships the gas for whoever will pay the cost of transportation. It simply charges a fixed fee to the utility or business that has itself bought the gas from a producer.

The feds figured Order 436 would make the pipelines more competitive, and bring down the price of natural gas, by reducing the use of traditionally more expensive long-term supply contracts. Instead of signing long-term contracts, gas utilities would buy from the spot market, where prices have usually been cheaper.

But like most government efforts to regulate business, this overlooked some very basic facts. The pipelines had signed long-term contracts to buy gas from the wells and had their utility customers on long-term contracts to take the stuff at the other end of the pipelines.

Order 436 made the pipelines furious because it allowed their customers, the utilities, to walk away from old contracts with the pipelines. At the same time, it did not free the pipelines from their old contracts to buy gas from the producers.

Worse, the old agreements were mainly "take-or-pay" contracts, signed when prices were far higher than they are today. Those contracts obligated the pipelines to buy the gas from producers, even when the old price made the gas too expensive to be sold.

In 1985 and 1986 alone, pipelines spent $1.6 billion buying their way out of these take-or-pay arrangements, but at the beginning of this year there was at least $6.8 billion worth of liability yet to be settled. These are the costs that must either be swallowed by the pipelines or passed on to someone.

It's as if gas stations had to buy gasoline from the oil companies at 1981's high prices and sell them to the consumer at today's much lower prices. They would all go broke, of course.

By last June only one major pipeline company, Columbia Gas System, had agreed to comply with Order 436 as

Take-or-pay takes its toll

No one is certain how take-or-pay costs will finally be divided. But to get some idea of the pretax effect on earnings and earnings per share, we assumed the hit would be split, 50-50, between pipelines and utilities. Remember, too, that these writeoffs would almost certainly be spread over more than one year.

Company	Possible writeoff ($mil)	Already written off	Remainder ($mil)	Remainder per share	Earnings per share*
Coastal	$300	$0	$300	$6.48	$3.01
Enron	103	0	103	2.34	3.34def
Panhandle Eastern	218	0	218	4.12	2.18
Sonat	350	281	69	1.70	7.93def
Tenneco	188	0	188	1.28	0.33
Transco	450	225	225	8.09	NA

*Trailing 12 months on continuing operations (as of 3/31/87). def: deficit. NA: not available.

Source: company, analyst estimates.

written. Most of the others had agreed to ship gas under other agreements while they waited for a District of Columbia Circuit Court of Appeals ruling on a case filed in 1985 that challenged the commission's refusal to deal with the take-or-pay issue.

But the wait has poured buckets of grief on the pipelines. At best, the market-sensitive, fixed-fee system allows the pipelines to recover hardly more than a fraction of their old take-or-pay costs. In the worst cases, take-or-pay costs for some companies have grown.

Transco Energy Co., for instance, now estimates that its take-or-pay settlement costs could total a staggering $900 million, double its calculation of a year ago (FORBES, *Aug. 11, 1986*). Transco lost $69.5 million in the first quarter of this year, after $141.8 million of those costs were written off, vs. a $20.3 million profit the year earlier.

With no relief from the commission, as long as Transco continued to transport gas, take-or-pay threatened to go even higher. In June Transco just walked away from the fixed-fee game. It went back to the old but higher-priced game, buying gas from producers, reselling to the customers on its pipeline and making money on the spread.

The federals did not like that at all. So the commission gave one of Transco's major competitors, Tenneco, permission to carry as much cheap spot market gas as it could handle. Customers flocked to Tenneco—the volume of gas in its pipeline has increased 18%—and deserted Transco, which lost 29% of the volume it had been carrying.

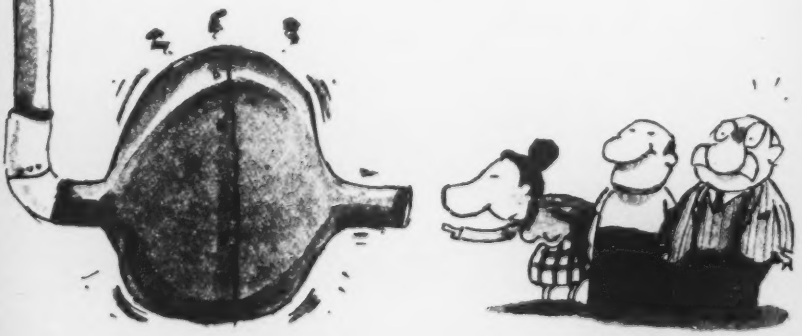
Result: Analysts expect the pipeline division to post an operating loss for the second quarter, vs. a $20.9 million operating profit in the first. In July the company cut its much-prized dividend by half, to $1.36.

But Transco may have been saved by the bell. A week after it abandoned fixed fees in June, the federal appeals court told the regulatory commission that if it didn't immediately address the take-or-pay question, the Order 436 would be invalidated before summer's end. The commission has now promised a resolution.

The early money is on two proposals: Either the utilities—and their customers—pay all take-or-pay costs or they pay half of them, with the pipelines swallowing the other half. Even if all the costs are passed on, pipelines could not, in practice, charge more than the market will bear. And recouping the total could take years.

Either way, prices will go up significantly for the utilities, but just how much more can they charge consumers? Most big industrial users can switch to other fuels if gas gets too expensive, and utilities can't afford to lose that business. Consumer groups almost certainly will scream, too. So nobody is going to be happy. ■

Patrick McDonnell



If this bottle
looks familiar
at this distance,
we congratulate you
on your taste
and perception.

Tanqueray Gin. A singular experience.

Deane Beman is the John L. Lewis of professional golf. He's created a powerful trade union for the players. Good for the rank and file, no doubt, but what about the sport?

Spreading the wealth

By Richard Behar

It is early on a May Thursday in Dublin, Ohio (pop. 9,500), and already seven police agencies are directing traffic by land and air. Want a room at the local Stouffer or anywhere else nearby? Forget it. With more than 50,000 spectators beginning to descend on the village, you'd be lucky to get a beer at the Bogey Inn. Meanwhile, over at the Muirfield Village Golf Club, some 2,500 volunteers are working the crowds on behalf of local charities and for money for Muirfield to spruce up its nearly perfect golf course.

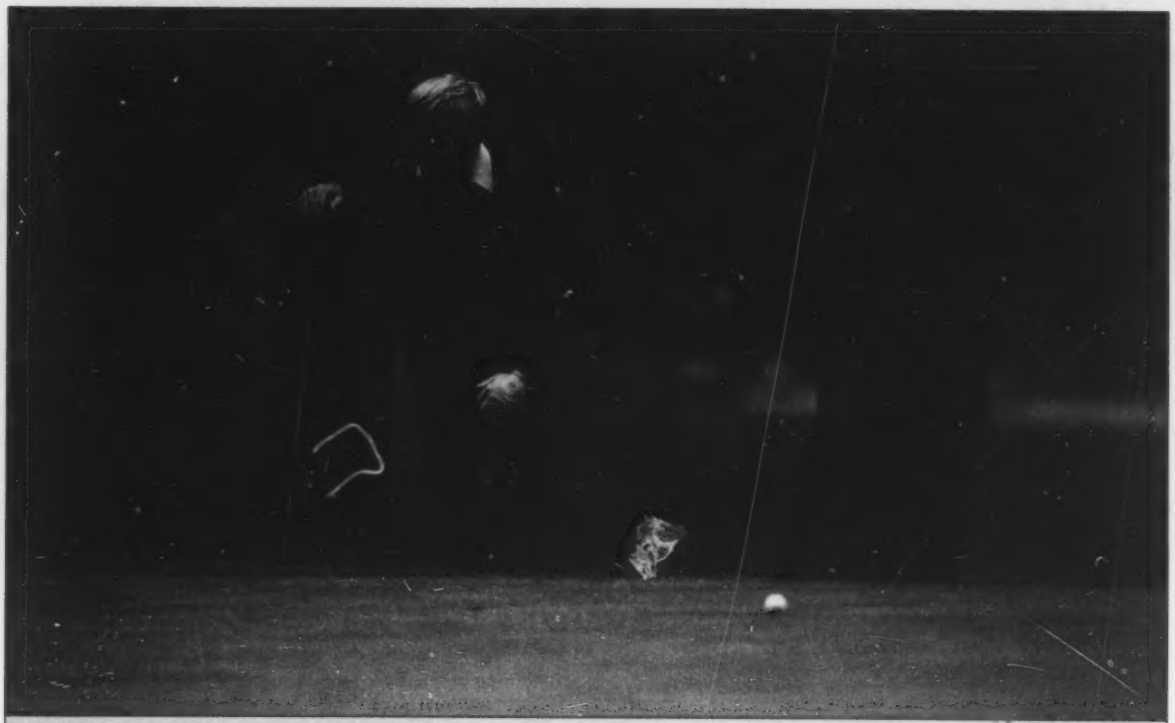
What happened in Dublin in May happens in 70 other small towns and cities all year long, in what has clearly become the biggest traveling road show in America: the PGA Tour, Inc. Wherever it goes, the Tour takes with it crowds of TV personalities and golfing groupies, young and old.

This year the Tour pros will compete before throngs totaling more than 7 million spectators at the courses. Television will open up the spectacle to an average of 11 million more viewers each week at home. At stake is not just enormous prestige but some $48 million in prize money to be divided among the competitors, with another $19 million in revenues being passed along to various local charities.

The man in charge of all this is Deane Randolph Beman, 49, a short, stubborn visionary who has served as commissioner of the PGA Tour for the past 13 years. A former touring golf pro, Beman shows no signs of winding down his 70-hour workweeks. He has turned a struggling-for-profit organization into a vastly profitable tax-

José Fernández/Woodfin Camp

PGA Tour Commissioner Deane Beman
"The biggest problem the Tour faces is to keep the players enthusiastic."



Jack Nicklaus, perhaps the greatest golfer who ever lived
"We got defeated and I've kept my mouth shut ever since."

exempt association with several for-profit subsidiaries.

Imagine major league baseball owned and operated not by the club owners but by the players, and you have some idea of the unusual union of the 250 nearly independent contractors who constitute the PGA Tour.

To the public, this spells golf and glamour. To Beman and the players he represents, it stands for money. Visitors to PGA Tour headquarters outside Jacksonville, Fla. confront a lobby filled with photos of the Tour's top star for each year since 1969. With each photo is a plaque proclaiming not each luminary's sporting triumphs—the birdies, eagles, tournament victories—but how much money the golfer won during the year.

Since Beman took charge in 1974, prize money has grown 500% and is divvied up, not just on the basis of scores or winning, but simply on completing the tournament. This helped Tony Sills, a modestly talented pro, earn $216,881 on the PGA Tour last year after finishing in 26 tournaments. Jack Nicklaus earned $226,014 in just 11 tournaments.

Alan Doren/JB Pictures

Manufacturers Hanover's John McGillicuddy
"Where are the players?"

Is everybody happy? Far from it. Golfing's biggest names think that the system gyps them. Arnold Palmer exploited? He thinks so. So do Jack Nicklaus, Tom Watson, Ray Floyd and many other golfers. Says Floyd, who at age 44 last year became the oldest man to win the U.S. Open, "You've essentially turned a capitalistic system into a socialistic one."

Hyperbole, of course, but Floyd is that angry. In fact, the PGA Tour traces back to leaner days, the 1920s, when a handful of country club pros such as Tommy Armour and Gene Sarazen would load up their cars in the autumn and roam throughout the winter from town to town in the Sunbelt, chasing $2,000 purses offered by resorts, hotels and chambers of commerce. Even as late as the early 1970s, the PGA Tour, under prior management, was a bare-bones outfit of 20 employees, with about $700,000 in assets and just $8 million in prize money for its golfers to duel for.

Today, thanks largely to Beman, the PGA Tour is one of the biggest organizations in all of sports, as well as one of the most profitable to the television networks—earning them upwards of $1 million per televised tournament.

Moreover, the Tour is hardly an association: It is a good-size business. Under Deane Beman's benevolent umbrella can be found 250 touring golfers, more than 800 employees (vs. 280 for the National Football League and related entities) and $52 million in assets that range from golf courses and housing developments to sportswear lines and even miniature-golf centers.

When Beman took charge as commissioner in 1974, the

Ray Floyd, at the U.S. Open in San Francisco, in June Paul Sutton/Duomo
"You've essentially turned a capitalistic system into a socialistic one."

Tour was almost entirely dependent on television for its $3 million in revenues. But although broadcast revenues have continued to rise since the early 1980s, the Tour this year will get 79% of its projected $103 million in gross revenues from nonbroadcast sources *(see chart, p. 80)*.

To reduce TV dependence even more, Beman is now negotiating with CBS, which televises most of the PGA's tournaments, to make the PGA Tour the first pro sport organization to produce its own telecasts on a regular weekly basis throughout the year. Without TV unions, Beman argues, the Tour can produce golf telecasts at less than half the typical network cost.

Such vertical integration has spread to real estate as well, which today supplies about a third of the PGA's revenues. The Tour now owns, operates or licenses 13 courses and clubs used once yearly for Tour events and available otherwise for dues-paying members (fees are up to $30,000 a year). Plans are ready for 10 more such courses in the next decade. The Tour also gets upwards of 20% of any future gain from residential development on certain properties abutting the courses. Then there's licensing: Beman has put the PGA logo on everything from cruise ships to car rental firms to entire countries (as "official golf destinations").

Though Beman was not the first to tie a corporation's name directly to a sporting event, he was years ahead of other sports in doing it so successfully on a grand scale. Today nearly 70% of the PGA's televised events have title sponsors (e.g., Doral Ryder Open, Honda Classic). In such events, the sponsoring corporation usually commits itself to providing part of the purse, and purchasing up to two-thirds of total network advertising time available during the telecast. In return, the company gets the prestige of sponsorship along with the promotional value of having its name seen by a television audience that can reach 15 million largely affluent viewers for the bigger events.

Beman has added further appeal to corporate sponsorships by vigorously promoting "Pro-Am" events that take place each Wednesday preceding any regular tournament. In the Pro-Ams, corporate executives or clients of sponsoring companies get to play 18 holes against the 45 top-rated golfers set to appear that weekend—a kind of sports-world version of a traveling escort service for executives.

That Beman has run the whole thing as a business, and a well-run business at that, is beyond anyone's questioning. But in the process he has alienated golf's best-known players and tended to reward mediocrity—the same fault that made trade unions harmful to industrial productivity even while protecting the privileges of the rank-and-file members. Ever hear of Chip Beck, Mike Donald, Buddy Gardner, Clarence Rose, Bobby Wadkins or Jodie Mudd? All have averaged more than $100,000 per year since 1983, yet none has won a single professional tournament in his life. Take Payne Stewart, 30, who last year earned over $500,000 but didn't win a tournament all year. Or Mike Reid, a ten-year veteran of the Tour who last year became the first player to top $1 million in career earnings without ever winning anything.

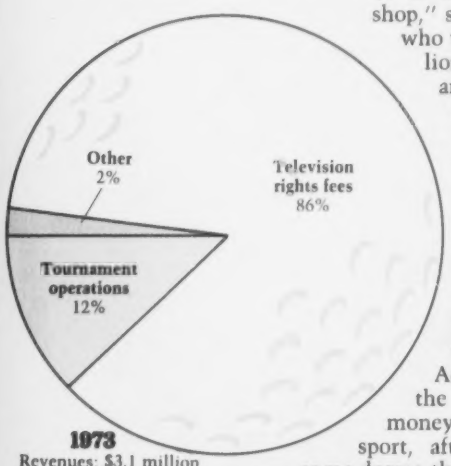
This astounds Arnold Palmer. "Hell, in the 1950s you almost had to win or have another job to make sure your family was going to eat," recalls Palmer, who, at 57, plays the newly formed Senior Tour. Is this just the gripe of a successful veteran who resents the younger generation for having an easier time than he did? Maybe, but Palmer does have a point: If it takes a merit system—rewards proportional to attainment—to bring out the best in players, is PGA egalitarianism the best way to breed highly motivated golfers?

In the 1950s, when purses were small, upwards of 90% of the prize money generally went to the top 20 finishers,

with the next 20 or so splitting the other 10%. Nobody else got a cent—a powerful incentive to win, or at least finish high up in the pack. Today, by contrast, the top 20 finishers receive only 78% of the pie, with everyone else who even finishes—sometimes as many as 70 players—getting the rest.

So, under Beman, the PGA has become a kind of trade union working for the benefit of the average member. Moreover, just as it's hard to fire people in unionized businesses, it's hard to dump the duffers from the PGA Tour. For that, the mediocre players can thank Gary McCord, a 14-year PGA veteran who never won a tournament. In 1983 McCord got himself elected to the PGA's ten-member board of directors as one of its few active players—after having successfully pressed for a change in the rules to make it easier for players like himself to stay on the Tour.

Prior to McCord's initiative, only the top 60 money winners on the previous year's Tour were automatically exempted from having to requalify on a weekly basis for the next year's tournaments. Thanks largely to McCord, nearly every touring pro has now been automatically exempted from having to qualify.



"It is becoming a closed shop," says Jack Nicklaus, who with nearly $5 million in career earnings and 71 tournament victories is considered by many sports experts to be the greatest golfer who ever lived. "It's more difficult to get onto the Tour, and yet you don't have to play very well to stay there." Adds Tom Watson, the second-largest money winner in the sport, after Nicklaus, "To some degree the Tour has become an equal opportunity employer."

As is the case in any such situation, economic egalitarianism encourages mediocrity. Says sports entrepreneur Mark McCormack, author of *What They Don't Teach You at Harvard Business School*, "Half of today's American pro golfers ought to go get a job somewhere else. As things now stand, they are preserving a system that gives them a way to avoid having to go to work."

Beman himself understands the dilemma. He says: "The biggest problem the Tour faces is to keep the players enthusiastic about what they are doing. Too many young players get successful starting out, and they don't completely develop their skill. It's my biggest concern, and I must say I think we've been a contributor to the problem."

As semi-independent contractors, PGA golfers are required to show up at only 15 of the Tour's 36 tournaments (excluding the Senior Tour) in order to retain their voting rights and eligibility for retirement money. This, however, has created problems for sponsors of events, who need to lure big-name players in order to attract crowds of paying spectators. To get the big names, sponsors in the last couple of years have responded by pushing tournament prize money higher and higher. In 1982 only 2 tournaments offered purses in excess of $500,000. This year there are 40.

Yet, by offering bigger and bigger purses, the sponsors are, in effect, giving more players the ability to show up at fewer events. Five years ago sponsors of autumn and winter tournaments routinely had trouble drawing big names. Nowadays, as the purses have increased, even summer tournaments are having trouble luring the golfers who draw the crowds.

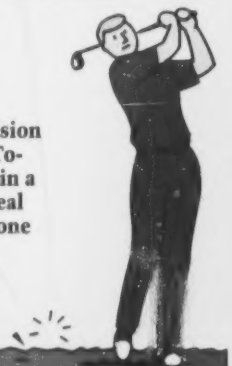
"We live at the mercy of who is going to show up," says John McGillicuddy, chairman of Manufacturers Hanover. For years his bank has been sponsoring the Westchester Classic each June in Harrison, N.Y. This year the event was strictly from boresville. "This is a major tournament in the media capital of the world," complains McGillicuddy. "Where are the players?" No mystery there. Most big-name PGA players decided to skip the Manny Hanny event and rest instead for the U.S. Open, set to begin a few days later in California. Among the no-shows: Tom Watson, Fuzzy Zoeller, Johnny Miller, Hale Irwin and Ben Crenshaw. A decade ago top players such as these routinely turned up at events that bordered the Open.

So why not simply pay "appearance fees" to attract the most desirable individuals? In a free market, that would obviously be the solution. But the PGA Tour is not a free market, and Beman doesn't want it to become one, either. Because PGA rules require that all players get treated equally by sponsors, the sponsors nowadays provide all with free cars, barbecue cookouts, day-care services for kids, shopping excursions for wives, baseball tickets for whole families. In short, freebies for all in the hopes of luring the few who really count.

Beman further irritates the big-name golfers by competing with them for endorsement money. Arnold Palmer is a spokesman for Hertz, but Beman has signed a deal making a Hertz rival, National Car Rental, the "official rental car" of the PGA Tour. "They are competing against their own people, and this will eventually hurt every golf professional," argues Palmer. Adds Ray Floyd, who endorses products ranging from sportswear to food products to the

A shifting slice

In 1973, a year before Deane Beman took over, the PGA counted on television rights fees for most of its revenues. Today vertical integration has resulted in a more independent enterprise, with real estate and tournament operations alone generating 70% of income.



Charts by Philip Scheuer

"They've taken the fear out of the game"

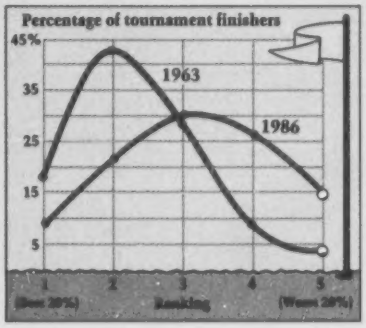
What would Charles Darwin say about the role of the monetary environment on *homo golfiens*? Many aficionados argue that by awarding prize money to the weakest in the pack *(see story)*, the PGA keeps the weaklings in the game while depriving the most gifted players of the incentive to excel: regression toward the mean—mediocrity, in short. "Overall, today's players are worse, and you can be assured there are no Ben Hogans out there," contends syndicated sports columnist Dan Jenkins, who began covering tournaments in the late 1940s, when Hogan was in his prime. "Today you can make a good living without winning. They've [the PGA] taken the fear out of the game."

Can Jenkins' opinion be tested? We have tried. FORBES statistician Steve Kichen examined six tournaments that were played on the same courses in 1963 and 1986, and looked at how players performed in relation to their peers. If Jenkins is right, today's golfers have less incentive to win, and therefore more players should finish in the back of the pack.

To put Jenkins' hypothesis another way: In 1963 the worst PGA tournament finishers received no money. Therefore players had a stronger incentive to win, and so you would expect more players to finish with better scores in 1963 than they had in 1986.

Our results, summarized in the chart below, are not conclusive, but they do seem to support Jenkins. The chart divides final tournament scores into quintiles. It shows that in 1963 12.3% of the players held the worst 40% of the scores. But in 1986 more than 40% of the finishers accounted for the bottom 40% of the scores. Conversely, a high 59.5% of the players held the top 40% of the scores in 1963, double the 1986 number.

Golf Darwinists like Jenkins also point out that only in America can golf's losers flourish. This would suggest that foreign players, who play on circuits with smaller purses, must struggle harder to make a living. Guess what. By general agreement, the top three golfers in the world today are Seve Ballesteros, a Spaniard; Bernhard Langer, a West German; and Greg Norman, an Australian. Interestingly, Langer and Norman have joined the PGA Tour, thereby raising the quality of PGA golf.



There are, of course, factors other than prize money at work. While courses are generally longer today, 7,000 yards vs. 6,500 in Hogan's time, technology has also advanced. Today's lightweight steel-shafted irons can propel an aerodynamically improved golf ball much farther and straighter. In fact, many traps on older courses are now obsolete, as top golfers routinely blow right over them. Fairways are softer, meaning less roll and more ball control, and the greens are shorter, smoother and faster, allowing for more consistent putting.

"The old-timers would look at these greens today and lick their chops," says *Golf Illustrated*'s Al Barkow, an expert on golf's early years: "They would kill everyone because they were great shotmakers who had to putt on really wretched greens. Nowadays, the ball usually sits up beautifully on nice, tight grass."

Has golf's easy-money environment reduced the level of skill in the game? We're not sure what Darwin would say, but he'd probably find the question an interesting one.—R.B.

Yellow Pages, "We are individuals who have earned the right to endorse products, so how can the PGA now turn around and market us collectively as a group?"

Beman brushes off such criticism as evidence of sheer greed. Says he: "We are doing something in the overall interests of golf. The top players usually have more deals than they can accept."

Beman is especially proud of the new "stadium" golf courses the PGA is building. Generally smaller than the traditional courses and with steeply terraced earthen seating, they are designed for less walking and easy viewing by tens of thousands of fans. But purists like Watson and Floyd complain that the new courses amount to contrived playing environments with too many hazards like ponds and sand traps and too many radically contoured fairways and greens that can send balls careening off into the rough unexpectedly. Moreover, they fear that these new "cookie-cutter courses" may someday replace many grand old Tour favorites like the Westchester Country Club or the Riviera Country Club outside Los Angeles.

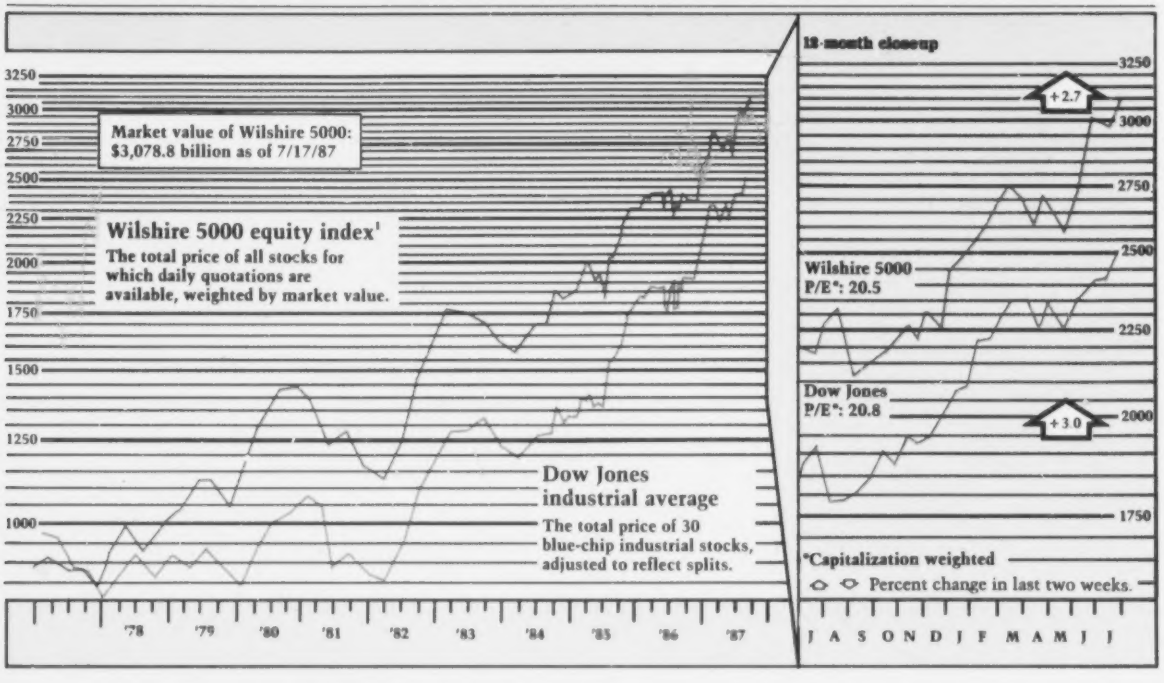
The people who run the PGA Tour shrug their shoulders. Says Roger Maltbie, a current player-director on the Tour, "Lots of guys don't care for the stadium courses, but let's face it, we play golf for money." Adds Beman: "The criticism that I'm going to replace the grand old courses is a bad rap. But many country clubs have traditionally gouged us by charging sponsors too much rent once a tournament gets established. In such cases, why should the Tour help pay for other people's clubs?"

No question: Deane Beman is making the PGA Tour into a golfing conglomerate. But will he so alienate the big names that are golf's biggest draws that he will defeat his own purpose in the process? So far Beman can point to the fact that while the top players have had several opportunities to do so over the last decade, no one has set up a rival tour. Yet. Several years ago top players met repeatedly with Beman and the PGA membership to argue about the direction the Tour was taking. Says Nicklaus, "We got defeated and I've kept my mouth shut ever since."

Maybe it's hard to work up much sympathy for people like Arnold Palmer and Jack Nicklaus, who clearly are rolling in money. But sympathy isn't the question. The real issue is: Should professional golf be organized like a trade union with egalitarian principles, or should it be a merit system, winner-take-most? It's a question golf lovers should think about. ■

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



How long can a bull market last? Quite a bit longer if it is anything like the major rallies of this century. The great crash of 1929 followed more than eight years of rising stock prices, during which the Dow gained over 400%. In the great postwar bull market, from June 1949 until February 1966, the Dow rose almost 500%. From 1966 to 1982—in an economy jolted by Watergate, wage and price controls, oil price shocks and high inflation—the market traded in a narrow band in which rallies were short-lived. The current surge began in August 1982 and is now approaching its fifth anniversary. To date the Dow has increased 223%. The historical comparison, of course, is no guarantee that this bull market will last another five years or double again. In the rally's favor are the seemingly long-lasting improvements in interest rates, commodity prices and corporate productivity. But earnings must continue to keep up with Wall Street's expectations in order for this market to be sustained.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	2.3	2.1	3.7	2.4	4.0	1.2
in last 52 weeks	27.3	28.2	41.2	29.6	32.0	13.9

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	1.8	5.0	3.0	1.9	1.8	1.4	1.6	5.7	3.1	2.4	2.1	5.1
in last 52 weeks	29.3	46.2	70.3	23.2	25.2	14.9	10.8	58.3	67.2	19.1	23.2	36.4

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

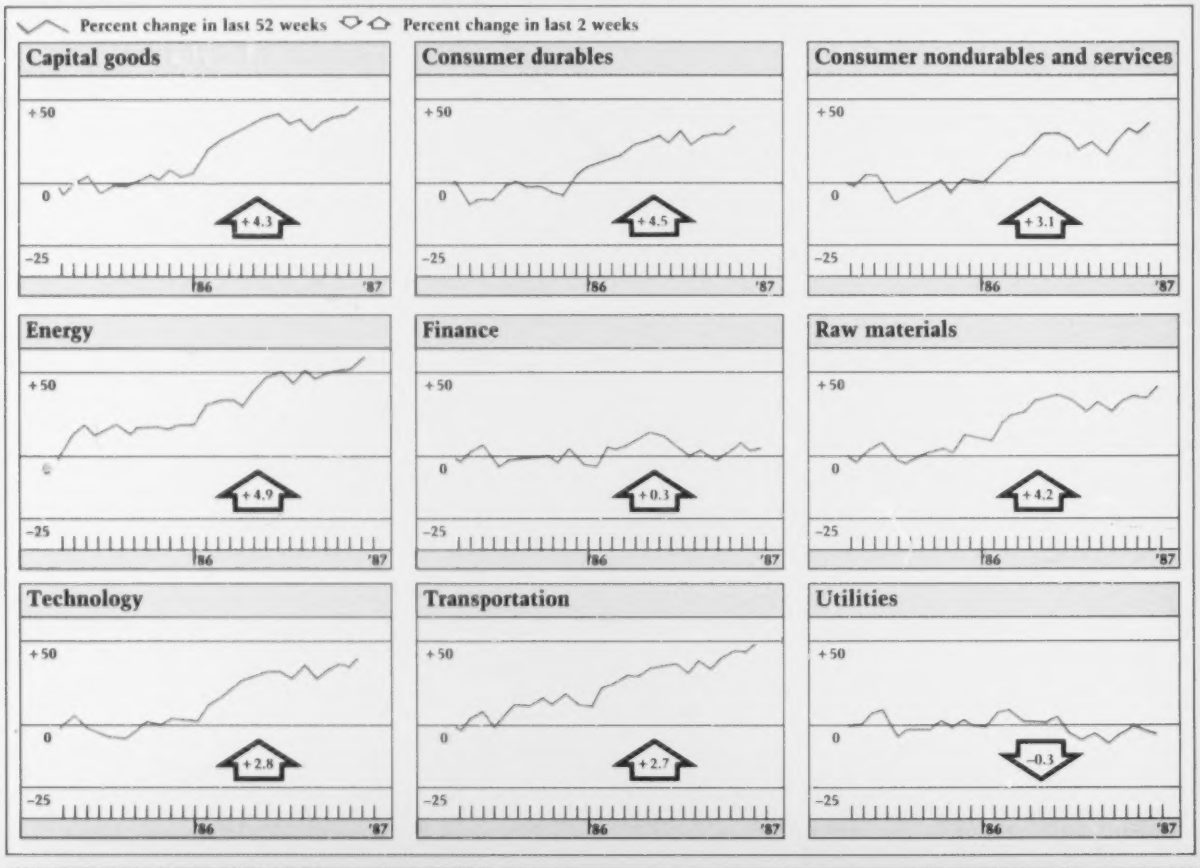
Note: All data for periods ending 7/17/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where the Action Is

Can oil stocks keep burning? Over the last ten trading days energy was the leading Wilshire sector, up 5%. Mitchell Energy & Development, an oil and gas exploration firm, shot up 22%. Ocean Drilling & Exploration, an oilfield service company, and Freeport-McMoRan, a diversified energy firm, also posted strong gains. Although this group outperformed the overall market by almost 3-to-1 during the last 52 weeks, its run may be near an end. This sector now sells for 19.2 times 1987 estimated earnings, compared with 15.5 for the average stock.

Three other groups posted gains over 4%: consumer durables, capital goods and raw materials. The interest-sensitive finance and utilities sectors remained virtually unchanged.



What the Analysts Think

No, it isn't a mistake. Analysts cut 1988 earnings forecasts for finance stocks a drastic 22% during the last two weeks. Major banks announced writedowns of their Third World loans, and analysts expected other banks to follow suit. Finance stocks rose only 0.3% over the last two weeks, but the estimated 1988 P/E went from 10 to 12.9.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.51	19.1
1987 estimates	3.08	15.5
1988 estimates	3.81	12.6

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Transportation	$2.32	16.1	0.50%	-0.63%
2	Energy	2.60	19.2	0.34	0.70
3	Consumer nondurables	2.45	17.3	0.05	0.51
4	Utilities	2.63	10.5	-0.03	-0.08
5	Raw materials	2.24	17.4	-0.12	-0.07
6	Technology	2.48	18.1	-0.21	-0.62
7	Consumer durables	3.84	13.7	-0.23	0.52
8	Capital goods	2.15	20.3	-0.47	-0.56
9	Finance	2.57	12.9	-22.13	-22.52

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 7/17/87. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

Statistical Spotlight

Warning to fans of computerized investing: Simple formulas don't work.

Fire that computer

By Peter Newcomb and Michael Ozanian

THREE YEARS AGO we let our computer pick stocks: five portfolios of 25 each, with each portfolio based on a single investment theory. No complex screens, no elaborate equations. For example, the low-P/E portfolio was simply the 25 stocks with the lowest price/earnings ratios. Four of the five portfolios tested common investment theories: low P/Es, big discounts from book value, earnings growth and earnings forecasts. The final portfolio was purely random, picked by the computer.

Results: uniformly terrible. Showing an extraordinary consistency, all five computer-generated portfolios underperformed the market. While

Low P/E

Initial investment	Current value of initial $1,000 position
American Century	$484
Central Maine Power	1,494
Chase Manhattan	2,038
Chemical New York	1,660
Cincinnati Gas & Elec	2,443
Commonwealth Energy	1,800
Consumers Power[1]	3,061
Contl Illinois	156
DWG	2,574
El Paso Electric	1,631
Finl Corp America	330
First Am Financial	2,320
First Western Finl	1,460
Ford Motor	2,810
Gibraltar Finl	1,364
Golden Western Finl	4,642
Kansas Cty Pwr & Lt	1,792
Long Isl Lighting	1,721
Maine Public Svc	1,764
Manufacturers Hanover	1,724
Middle South Utils	989
Public Svc Ind	1,899
Public Svc New Hamp	951
Toledo Edison[2]	1,182
United Illuminating	1,943
Total value of portfolio	44,232

[1]Now CMS Energy.
[2]Now part of Centerior Energy.

Analysts' choice

Initial investment	Current value of initial $1,000 position
Alcan Aluminium Ltd	$1,841
Allen Group	1,102
Aluminum Co of Am	1,719
Arrow Electronics	318
Black & Decker	1,056
Chesapeake	2,068
Chrysler	3,097
Clark Equip	960
Data General	634
Esterline	643
Federal Paper Board	2,288
Foxboro	1,030
Georgia-Pacific	2,329
BF Goodrich	1,798
Koppers	2,226
Lotus Development	4,320
Marshall Inds	1,042
Mead	1,117
Moore McCormack Res	1,157
Paccar	1,673
Signal Cos[1]	1,844
Singer[2]	1,543
Joy Mfg	reinvested
St Regis	reinvested
United Energy Res	reinvested
Total	35,805
Reinvested distributions	5,342
Total value of portfolio	41,147

[1]Now Allied-Signal. Includes Henley Group and Fisher Scientific distributions.
[2]Includes SSMC distribution.

Growth

Initial investment	Current value of initial $1,000 position
Academy Insur Grp	$300
Amfesco Inds	196
Avant-Garde Comptng	183
BR Communications	403
CPI Corp	2,517
Comair	2,033
Commodore Intl	351
Dreyfus	3,645
Dysan[1]	1,050
First Executive	1,954
GTS	333
General Homes	962
Helen of Troy	1,268
Jeffrey Martin	1,077
Key Pharmaceuticals[2]	2,114
Limited	5,839
Liz Claiborne	6,909
Phoenix American	700
Provincetn-Bos Air	11
Quick & Reilly Grp	1,761
Southern Hospitality	613
Yankee Cos	247
Berg Enterprises	reinvested
Gulfstream Aerospace	reinvested
Nutri/System	reinvested
Total	34,466
Reinvested distributions	6,648
Total value of portfolio	41,114

[1]Merged into Xidex.
[2]Merged into Schering-Plough.

the Wilshire index of almost 6,000 stocks nearly doubled, our portfolios, on average, gained only 63%. Chance, of course, played a large role, but the debacle suggests that the market does not reward investors for doing simple computer screens.

We assumed an investment of $1,000 in each stock. Our rules: If a firm merged, we took shares in the acquiring company. If a firm sold out for cash, we reinvested in the remaining stocks in the portfolio.

The best of the losers: the low-P/E group, up 77%. Golden West Financial and Consumers Power, now CMS Energy, did well. But the list was dragged down by troubled financial institutions: American Century, Financial Corp. of America and Continental Illinois. Advocates of low-P/E

investing would argue for patience. But patience is in short supply in a bull market.

The book value fund had stocks selling for the deepest discount from book value. It turned in the worst performance, with a gain of 52%.

Both the growth stock and analysts' choice portfolios increased less than 65%. The growth fund consisted of stocks that had the highest earnings growth rates for the four years prior to 1984. Since then many of these stocks have lost their magic touch. In 1984 Avant-Garde Computing, a software firm, had an impressive 4-year earnings growth rate of 289% and a P/E of 60. But the firm earned only 24 cents in 1985 and lost money last year. The stock is off 82%.

The 25 issues in the analysts' choice fund were supposed to show the largest percentage gains in earnings from 1983 to 1985. Selecting companies on long-term earnings forecasts, alas, is as shaky as the forecasts themselves (FORBES, *June 1*). In 1984 the analysts expected Arrow Electronics to earn $3.79 the next year. The company lost $1.69. Esterline, a precision instrument firm, made 16 cents in 1985 instead of the $3.13 that was forecast. Both stocks are off sharply.

The randomly selected smart dart fund, the successor to our original Dartboard Fund, is up 56%. The computer picked Forest Labs, a drug company, which nearly tripled, and Big Bear, a supermarket chain, which increased 230%. Richardson-Vicks, which was taken over, was a wise choice. But the dart also landed on Victoria Bankshares, Texas American Bancshares and Bellwether Exploration, all suffering oil industry blues.

The smart dart fund has a long way to go to catch up to its predecessor. In the fall of 1967 three FORBES executives threw darts at the NYSE stock market page of the *New York Times* and selected 28 stocks (FORBES, *Nov. 1, 1967*). By July 1984 our imaginary investment of $28,000 was worth $132,000, excluding dividends. Our marksmen outperformed the Dow by better than 5-to-1, 9.5% a year vs. 1.9%. But one stock, Texas Oil & Gas, which increased 7,176%, accounted for almost all the brilliance in these darts. By 1984 almost half the 28 stocks were merged or acquired, so the original fund was put to rest and replaced with five electronic dartboard funds.

The original dartboard was intended to poke fun at the random walk theory of investing then popular in academe—the theory that guesswork was as good as studying financials in selecting stocks. The son of Dartboard seems to have poked a small hole in the current fad for computerized investing. ■

Smart dart random

Initial investment	Current value of initial $1,000 position
Argosystems	$2,176
Bellwether Exploration	169
Big Bear	3,355
Burndy	1,081
Dreyer's Gr Ice Cream	1,110
AG Edwards	1,904
Forest Labs	3,733
Infodata Systems	467
Intl Banknote	1,000
Iomega	683
Penn Central	1,342
Rainier Bancorp	2,874
Sandwich Chef	883
Sis Corp	784
Texas Am Bancshares	363
Time Inc	2,438
Toro	2,633
Ultrasystems	622
Victoria Bankshares	694
Winnebago	1,122
American Sterilizer	reinvested
Ampad	reinvested
Home Centers of Am	reinvested
Richardson-Vicks	reinvested
Steiger Tractor	reinvested
Total	29,433
Reinvested distributions	9,559
Total value of portfolio	38,992

Value

Initial investment	Current value of initial $1,000 position
Allied Supermarkets	$3,810
Barber-Greene[1]	414
Biotech Capital	5,333
Charter Co	2,706
Consumers Power[2]	3,061
Contl Illinois	156
Crompton	68
Digicon	105
Evans Products	0
General Pub Utils	3,103
Inspiration Res	985
Keystone Consl Inds	5,824
Republic Steel	367
Long Isl Lighting	1,721
Manufacturers Hanover	1,724
Manville	439
Marine Midland Banks	2,969
Offshore Logistics	643
Peoples Restaurants	0
Public Svc Ind	1,899
Transcontl Energy	167
Twin City Barge	71
Wheeling-Pitt Stl	358
Crocker National	reinvested
Petro-Lewis	reinvested
Total	35,923
Reinvested distributions	2,053
Total value of portfolio	37,976

[1]Merged with Astec.
[2]Now CMS Energy.